

J. BRANDON SNYDER

Page 174

1 that started with if someone had told you this  
 2 or if someone had told you that or if Coopers &  
 3 Lybrand had done that, or if Coopers & Lybrand  
 4 had done that. To your knowledge and  
 5 recollection, did any of the things Mr. Jones  
 6 covered as hypotheticals actually occur?

7 A. None of them occurred.

8 Q. Okay. You were asked questions, again,  
 9 hypothetically, that if the board had  
 10 discovered that the 1996 statements were \$40  
 11 million worse than -- than what was presented  
 12 or if --

13 MR. MCCLLENAHAN: I think the  
 14 question -- what was asked was whether they  
 15 were \$80 million worse in 1996.

16 MR. MCDONOUGH: I think that was the  
 17 '97.

18 MR. JONES: No, it was 80 million.

19 Q. All right. Let me ask the question generally  
 20 then. Do you remember those questions, that if  
 21 the results were worse, might something have  
 22 happened, and you indicated that it might have?

23 A. Right.

24 Q. With respect to actual situations, Mr. Snyder,  
 25 you recall that in the first quarter of 1998,

Page 176

1 do you recall ever taking those financial  
 2 statements and comparing them to the management  
 3 financial statements?

4 A. I mean, that was pretty much done all the time.  
 5 I mean --

6 Q. By whom?

7 MR. MCCLLENAHAN: Let him finish his  
 8 answer.

9 Q. I'm sorry. I'm sorry.

10 A. By different members of the board. I mean, if  
 11 they had been materially different, they would  
 12 have been realized.

13 Q. Okay. And I don't disagree with that,  
 14 Mr. Snyder, but my question to you was limited  
 15 to you. Do you recall --

16 A. Yes.

17 Q. -- taking the audited financial statements and  
 18 comparing them to the internally generated  
 19 management statements?

20 A. I'm not saying I spent hours on it, but you  
 21 could just take a few revenues, net incomes. I  
 22 mean if things were adding up pretty much the  
 23 same --

24 Q. So in connection with your having done that, do  
 25 you recall any occasion where your comparison

Page 175

1 just 3 months, AHERF experienced a \$42 million  
 2 loss; correct?

3 A. Yes.

4 Q. Do you recall the board doing anything about  
 5 that?

6 A. I do not.

7 Q. Okay. Now, I would like to go back to the  
 8 question you were asked about your review of  
 9 audited financial statements.

10 A. Okay.

11 Q. Is it correct, Mr. Snyder, that in your  
 12 capacity as a trustee of AHERF and as a member  
 13 of the finance committee, you received  
 14 regularly internally generated financial  
 15 statements of management?

16 A. That's correct.

17 Q. Do you recall whether you got those monthly or  
 18 quarterly or --

19 A. I think it was -- it was quarterly.

20 Q. So quarterly you would receive management's  
 21 numbers with respect to the balance sheet and  
 22 operations of AHERF; correct?

23 A. Correct.

24 Q. Okay. Now, when you received audited financial  
 25 statements for any specific year end of AHERF,

Page 177

1 generated any questions in your mind?

2 A. No.

3 Q. Okay. Do you recall ever asking management any  
 4 questions about the internal statements versus  
 5 the audited statements?

6 A. No.

7 Q. And I take it from your prior testimony you  
 8 certainly don't recall asking the auditors any  
 9 such questions?

10 A. No. I don't believe I ever talked to an  
 11 auditor ever.

12 Q. That was the point of my question. Okay. Now,  
 13 you indicated at one point in your answer to  
 14 questions from Mr. Jones that at June of '97,  
 15 you had no recollection of thinking that AHERF  
 16 was in terrible financial condition.

17 A. Correct.

18 Q. Okay. Was there a subsequent date when you  
 19 changed your view or did that remain your view  
 20 during your service on AHERF?

21 A. Pretty much remained my view. I mean, it  
 22 wasn't till the newspapers began to talk about  
 23 it that I realized there was quite a problem.

24 Q. So that would have been after -- when you say  
 25 the newspapers started talking about it, you

45 (Pages 174 to 177)

## J. BRANDON SNYDER

Page 186

1 COMMONWEALTH OF PENNSYLVANIA ) CERTIFICATE  
 2 COUNTY OF ALLEGHENY ) SS:

3 I, Anthony Jude Cordova, RPR, a Court Reporter  
 4 and Notary Public in and for the Commonwealth of  
 5 Pennsylvania, do hereby certify that the witness, J.  
 6 BRANDON SNYDER was by me first duly sworn to testify  
 7 to the truth; that the foregoing deposition was taken  
 8 at the time and place stated herein; and that the  
 9 said deposition was recorded stenographically by me  
 10 and then reduced to printing under my direction, and  
 11 constitutes a true record of the testimony given by  
 12 said witness.

13 I further certify that the inspection, reading  
 14 and signing of said deposition were NOT waived by  
 15 counsel for the respective parties and by the  
 16 witness.

17 I further certify that I am not a relative or  
 18 employee of any of the parties, or a relative or  
 19 employee of either counsel, and that I am in no way  
 20 interested directly or indirectly in this action.

21 IN WITNESS WHEREOF, I have hereunto set my hand  
 22 and affixed my seal of office this 30th day of  
 23 September, 2003.

24 \_\_\_\_\_  
 25 Notary Public

Page 187

1 COMMONWEALTH OF PENNSYLVANIA ) E R R A T A  
 2 COUNTY OF ALLEGHENY ) S H E E T

3 I, J. BRANDON SNYDER, have read the foregoing  
 4 pages of my deposition given on Friday, September 26,  
 5 2003, and wish to make the following, if any,  
 6 amendments, additions, deletions or corrections:  
 7 Pg. No. Line No. Change and reason for change:

8  
 9  
 10  
 11  
 12  
 13  
 14  
 15  
 16  
 17  
 18  
 19

20 In all other respects, the transcript is true and  
 21 correct.

22 \_\_\_\_\_  
 23 J. BRANDON SNYDER

24 Subscribed and sworn to before me this  
 25 \_\_\_\_\_ day of \_\_\_\_\_, 2003.

\_\_\_\_\_  
 Notary Public  
 AKF Reference No. AC77439

48 (Pages 186 to 187)

**W.P. Snyder Dep.**

**In The Matter Of:**

***AHERF v.  
PRICEWATERHOUSECOOPERS, L.L.P.***

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***WILLIAM SNYDER, III  
July 15, 2003***

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**SNYDER, III, WILLIAM**



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Page 90

1 that acquisition?  
2 A. I don't know. I'd have to go back and read a  
3 lot more about it before I could tell you why  
4 we tried to acquire Graduate.  
5 Q. Do you see here in Exhibit 80, in  
6 Mr. Abdelhak's letter, the third sentence  
7 reads: I consulted extensively with Bill  
8 Snyder, and he is in full agreement with the  
9 proposed action?  
10 A. Yes.  
11 Q. Do you remember anything about Mr. Abdelhak  
12 consulting with you?  
13 MR. WHITNEY: About Graduate?  
14 MR. RYAN: Yes.  
15 A. All I can remember is that he consulted with me  
16 about that and all the rest of the hospitals.  
17 He says in here, the -- extensively is the word  
18 he uses, so I assume that he talked to me a lot  
19 about it.  
20 Q. Why don't -- if you would, why don't you take a  
21 moment to review the next two pages --  
22 A. All right.  
23 Q. -- which are entitled Overview of Proposal for  
24 Certain Graduate Health System Entities to  
25 Become Part of SDN, Inc.

Page 91

1 A. Okay.  
2 Q. Has this helped at all to bring back two  
3 reasons why AHERF was acquiring Graduate?  
4 A. Yes. Yes.  
5 Q. All right. And what reasons are those?  
6 A. What's your question?  
7 Q. Based on having now reviewed this overview,  
8 what reasons do you recall AHERF having for  
9 making the Graduate acquisition?  
10 A. There again, I believe for the same reason, to  
11 provide more patients for all the hospitals.  
12 Q. So that the idea was that by increasing in  
13 size, the acquisition would improve the overall  
14 financial strength of the eastern region?  
15 A. More economies of scale.  
16 Q. Okay. Economies of scale with the Graduate  
17 hospitals and the existing hospitals in the  
18 eastern region?  
19 A. That's correct. Just in the east.  
20 Q. So that would be the hospitals we've talked  
21 about, MCP, United and Hahnemann?  
22 A. Hahnemann, yes.  
23 Q. Do you recall that AHERF was making the  
24 Graduate acquisition through a corporation  
25 called SDN, Inc.?

Page 92

1 A. Yes.  
2 MR. WHITNEY: Objection. Foundation.  
3 Q. And what do you recall about that?  
4 A. I recall, as far as I can remember, was that it  
5 was an effort to not put more debt on the AHERF  
6 balance sheet and to have it over to the side,  
7 but reserving the right to put that hospital  
8 into the AHERF family when the time seemed  
9 appropriate.  
10 Q. And you didn't believe, did you, that there was  
11 anything improper about the use of SDN, Inc.?  
12 A. It worried me, but I asked Nancy, and she said  
13 she thought it was perfectly legal.  
14 Q. When you say that it worried you, what worried  
15 you about it?  
16 A. Well, just from what you said. Why are we  
17 doing things off to the side? I'm always leery  
18 of off-balance sheet things, and this was an  
19 idea that -- I don't know who hatched this  
20 idea, whether it was Sherif or Nancy or who it  
21 was, but --  
22 Q. All right. So you consulted with Ms. Wynstra  
23 about it?  
24 A. Yes, in conjunction with Sherif.  
25 Q. And she told you that this was a perfectly

Page 93

1 legal mechanism?  
2 A. Yes.  
3 Q. Do you recall anything else that she may have  
4 told you about SDN?  
5 A. No.  
6 Q. Did you consult at all with Coopers & Lybrand  
7 about SDN?  
8 A. No.  
9 Q. Did you consult with Coopers & Lybrand about  
10 the Graduate acquisition in general?  
11 A. No.  
12 Q. If you take a look, please, it's the page with  
13 number -- the number ending in 2668, using  
14 these little numbers in the bottom right, these  
15 Bates numbers.  
16 A. 2668. I've got it.  
17 Q. Are you with me on a schedule called Actual  
18 Statement of Revenue and Expenses 11 Months  
19 Ended May 31, 1996?  
20 A. Yes, sir.  
21 Q. Do you know whether you reviewed this kind of  
22 financial information for the Graduate  
23 hospitals prior to the acquisition?  
24 MR. MCCLLENHAN: Objection to the  
25 form. What do you mean by this kind of

Page 94

1 financial information? You mean did he review  
2 this particular sheet?  
3 Q. Do you know whether you reviewed an income  
4 statement, whether it was this schedule or  
5 another income statement schedule, for the  
6 Graduate hospitals before the acquisition?  
7 A. I don't recall.  
8 Q. And this schedule appears to show a net loss  
9 for this 11-month period of \$9,697,000?  
10 A. That's what it shows.  
11 Q. And two rows up, a loss from operations of  
12 \$20,124,000?  
13 A. Yes.  
14 Q. Do you recall a discussion at the board of  
15 trustees about how the Graduate hospitals were  
16 doing in terms of their financial condition?  
17 A. No. I don't remember that discussed.  
18 Q. I think you mentioned in the context of SDN  
19 that you do recall that there was a possibility  
20 that only certain of the Graduate hospitals and  
21 not all of them would be integrated into AHERF,  
22 is that right?  
23 A. That isn't what we were talking about. We were  
24 talking about, I said, it was possible in the  
25 future that the hospitals could be integrated

Page 95

1 into AHERF.  
2 Q. Oh, I see.  
3 A. I mean, that was left open.  
4 Q. Was there a discussion of whether it would be  
5 all of the Graduate hospitals or none or if  
6 some hospitals might be selected to be  
7 integrated into the system?  
8 A. Yes, there was discussion of what entities we  
9 should acquire.  
10 Q. And what do you recall about that?  
11 A. I don't remember what they were, but I remember  
12 there was people talking about one and the  
13 other.  
14 Q. There was a view that certain hospitals might  
15 not be as desirable as other hospitals?  
16 A. Right. Right.  
17 Q. Who then was going to decide which of the  
18 Graduate hospitals would be integrated into  
19 AHERF?  
20 A. I would assume Sherif. Assume. I say it was  
21 Sherif that would decide that.  
22 Q. And do you recall that the board of trustees  
23 gave him authority to make that decision?  
24 A. No, I don't recall that.  
25 Q. Let me hand you, Mr. Snyder, what's previously

Page 96

1 been marked as Exhibit 832, and let me just ask  
2 you first does this appear to be a copy of the  
3 minutes of what's referred to as the Annual  
4 Meeting of the Board of Trustees of AHERF held  
5 on Thursday, December 12, 1996?  
6 A. It does.  
7 Q. And what I'd like to call your attention to, if  
8 I could, is beginning on page 4, the section  
9 headed Reorganization of Certain Graduate  
10 Health System Entities, and then there are a  
11 number of resolutions that continue on to  
12 page 10.  
13 A. Yeah. Okay.  
14 Q. Let me ask you first, since I don't have the  
15 benefit for this meeting of the type of  
16 transcription of shorthand notes that we saw  
17 earlier, does a review of the minutes here that  
18 you've just looked at help you to recall what  
19 was said at this meeting about the Graduate  
20 acquisition?  
21 A. Not too much, no.  
22 Q. Do you recall any member of the board of  
23 trustees speaking against the Graduate  
24 acquisition?  
25 A. No, I don't recall that. I'd like to help

Page 97

1 there, but I don't recall that.  
2 Q. Do you recall any member of the board raising  
3 any questions or concerns about the acquisition  
4 even if it didn't rise to the level of speaking  
5 against it, so to speak?  
6 A. Well, there's a difference between recalling  
7 exactly what we're talking about and the  
8 impression left in my mind about these  
9 acquisitions. That's all I can say. There's a  
10 difference there, but since I can't be  
11 specific, I can't answer that.  
12 Q. Do you remember any trustee raising with you  
13 the issue of the fact that AHERF management had  
14 announced the acquisition of the Graduate  
15 hospitals before consulting with the full  
16 board?  
17 A. No.  
18 Q. And you're shown as being present at this  
19 meeting of the board, right?  
20 A. I was there, yes.  
21 Q. And I assume that you voted in favor of the  
22 resolutions --  
23 A. Yes.  
24 Q. -- relating to the Graduate acquisition?  
25 A. Well, I guess I did if the minutes show it.



## WILLIAM SNYDER, III

Page 142

1 A. I remember there was a discussion of it. I  
 2 don't remember whether we did it or not.  
 3 Q. And was it your understanding, there again,  
 4 that the idea would be to get cash in the  
 5 short-term?  
 6 A. Right.  
 7 Q. Was it your feeling at this time in the fall of  
 8 1997 into the spring of 1998 that AHERF  
 9 management was undertaking a number of  
 10 proactive measures to try to improve the  
 11 organization's condition?  
 12 A. Absolutely.  
 13 Q. And did you approve of the measures that they  
 14 were undertaking?  
 15 A. Did I personally approve of them?  
 16 Q. Yes, sir.  
 17 MR. MCCLENAHAN: I mean, I will  
 18 object to the question as vague. You've listed  
 19 a number of such measures. There may be other  
 20 measures, and I'm not sure whether he would  
 21 give the same answer as to each and every one.  
 22 A. Yes, that's very true. I approved of the  
 23 leaseback sale, and what other ones are you  
 24 referring to? Accounts receivable?  
 25 Q. Yes. The layoffs, the closing of Mt. Sinai

Page 143

1 Hospital, the other cost reductions --  
 2 A. I approved of those, yes.  
 3 Q. -- and the sale of the eastern hospitals to  
 4 Vanguard?  
 5 A. Yes.  
 6 Q. Do you recall that in April 1998, AHERF repaid  
 7 a loan from the Mellon Bank?  
 8 A. Yes, I do.  
 9 Q. And what do you recall about that?  
 10 A. All I could tell you about that is that Sherif  
 11 came to see me one morning early in my office  
 12 and said he was forced to pay the Mellon Bank  
 13 off. I don't remember the figure, but it sort  
 14 of runs in my mind it was \$98 million. I may  
 15 be wrong on that by now, but that's a figure  
 16 that's in the back of my head, and that he had  
 17 to do it or the Mellon Bank was going to  
 18 foreclose. That's all I can remember. And I  
 19 said to him, I think you should have taken that  
 20 to the board before you took such drastic  
 21 action. He said he didn't have time.  
 22 Q. Why did you consider that to be drastic action?  
 23 A. Well, we had all kinds of other debts, and just  
 24 to single out one creditor and pay them back  
 25 didn't seem right without full authority.

Page 144

1 Q. And when you made this point to him, his  
 2 response was that he hadn't had time?  
 3 A. He had no time. He said he was given an hour  
 4 or something like that to make up his mind.  
 5 Q. Did you then talk about this Mellon Bank  
 6 repayment with anyone else besides  
 7 Mr. Abdelhak?  
 8 A. Well, it became a matter of general discussion  
 9 immediately among -- at all the meetings, but I  
 10 don't think that I specifically called anybody  
 11 and said, hey, we just paid the Mellon Bank  
 12 back.  
 13 Q. And when you say at meetings, you're talking  
 14 about meetings of the board or of committees of  
 15 the board?  
 16 A. Yes. Right.  
 17 Q. And what was the nature of that discussion?  
 18 A. Well, the propriety of doing it and how much  
 19 time did we really have? Did the Mellon Bank  
 20 really put the squeeze on us? That's about it.  
 21 Q. And were there trustees who expressed the view  
 22 that Mr. Abdelhak should not have repaid the  
 23 loan?  
 24 A. I don't remember if there was anybody that said  
 25 they disapproved of it. I think they

Page 145

1 disapproved of the manner in which it was done  
 2 so quickly.  
 3 Q. Without consulting the board?  
 4 A. Without consulting the proper authorities. It  
 5 was a lot of money.  
 6 Q. And did you also personally believe that  
 7 Mr. Abdelhak should have consulted the board?  
 8 A. Yes.  
 9 Q. Did Mr. Abdelhak's handling of the Mellon Bank  
 10 repayment play a role in his being replaced as  
 11 chief executive officer of AHERF?  
 12 A. The answer is that, among others.  
 13 Q. What were the other factors as you understood  
 14 them?  
 15 A. Well, the condition of the corporation as a  
 16 whole and his handling of it. Where are we now  
 17 in the time frame? When was bankruptcy? What  
 18 was the end date?  
 19 Q. The bankruptcy, I think I can tell you, was  
 20 filed on July 21, 1998.  
 21 A. So what we're talking about is how many months  
 22 before then?  
 23 Q. The Mellon Bank repayment?  
 24 A. Yeah.  
 25 Q. I think it was three months before that.

WILLIAM SNYDER, III

Page 146

1 A. Three months. Okay. I just want to get the  
2 time frame in my head.  
3 Q. So you've mentioned, I think, as factors for  
4 why Mr. Abdelhak was replaced, his handling of  
5 the repayment of the Mellon Bank loan, and then  
6 the condition of the corporation as a whole and  
7 his handling of that?  
8 A. The condition of the whole situation. We were  
9 in dire straits.  
10 Q. Who decided to replace Mr. Abdelhak as CEO?  
11 A. I did, with consultation with some of the  
12 senior board members.  
13 I had a meeting with three other  
14 senior doctors on a Sunday afternoon, and they  
15 said that they were going to leave and pull a  
16 lot of the doctors out of Allegheny with them  
17 if Abdelhak didn't go. It was about a  
18 three-hour meeting. Then when I got back from  
19 that meeting, I called a number of the leading  
20 trustees and asked them what they thought, and  
21 they all said we think he should go. So I  
22 didn't see him on Monday because of some  
23 reason, I don't know whether his or mine, but,  
24 anyway, I called him down to the office on  
25 Tuesday and fired him.

Page 147

1 Q. So the first event in the sequence of events,  
2 as you recall, was this meeting that you had  
3 with three Allegheny General Hospital doctors?  
4 A. This was the first what?  
5 MR. MCCLENAHAN: That would depend on  
6 when you begin the sequence.  
7 Q. The first event in the series of events that  
8 led to Mr. Abdelhak being fired was a meeting  
9 you had with three Allegheny General doctors?  
10 A. Yes, that was the first. Yes.  
11 Q. Who were those doctors?  
12 A. Dr. McGovern, Jr., Dr. Shannon, Richard  
13 Shannon, and Dr. Jeffrey Cohen.  
14 Q. Could you spell that last one, please?  
15 A. C-O-H-E-N. He's chief of urology. Still is.  
16 Q. And where did this meeting with the doctors  
17 take place?  
18 A. At Dr. Shannon's house in Sewickley.  
19 Q. And who called the meeting, so to speak?  
20 A. It was Dr. Shannon called me, I believe, on  
21 Saturday and asked if I could meet tomorrow  
22 afternoon, and I said certainly.  
23 Q. And the meeting lasted --  
24 A. For three hours.  
25 Q. And what issues did the three doctors raise

Page 148

1 with you in the meeting?  
2 A. Well, they mostly said the damage that happened  
3 to Allegheny General, that was their main beef,  
4 because they were all Allegheny General  
5 Hospital, and they thought that the hospital  
6 was being put in a very -- had been put in an  
7 extremely bad position, and it was getting  
8 worse every day, and that they weren't going to  
9 stay if he stayed.  
10 Q. Dr. Cohen, I think you mentioned, was the chief  
11 of urology?  
12 A. Yes. Dr. Shannon is chief of medicine.  
13 Q. And Dr. McGovern is a heart doctor?  
14 A. He's a thoracic surgeon.  
15 Q. And I take it that these were all three very  
16 eminent medical doctors?  
17 A. Yes, and all reasonably young. Not real young,  
18 but reasonably young.  
19 Q. And they told you that if Mr. Abdelhak wasn't  
20 fired, they would leave Allegheny General?  
21 A. If he wasn't what?  
22 Q. That if Mr. Abdelhak wasn't fired, they would  
23 leave Allegheny General Hospital?  
24 A. Yes, and take as many others with them as they  
25 could.

Page 149

1 Q. At this meeting that you had at Dr. Shannon's  
2 house on Sunday afternoon, did you attempt to  
3 argue with them or --  
4 A. No. No. I just let them talk and explain why  
5 they felt that way and why others felt that  
6 way.  
7 Q. And I take it after that meeting, you then met  
8 or called up some other board members?  
9 A. Yes, I did.  
10 Q. Who were they?  
11 A. I called them on the phone.  
12 Q. Who were they?  
13 A. I know Barnes was one, and I think I talked to  
14 Nimick and --  
15 Q. Francis Nimick?  
16 A. Yes. I don't recall all who I called, I really  
17 don't, but I called four or five of them.  
18 Q. If we just look back at the minutes of the  
19 executive committee, I don't know if that would  
20 at all help you to refresh your recollection as  
21 to which trustees you may have called.  
22 A. Well, is that important to you to know which  
23 ones?  
24 Q. It is, yes. Yes, it is.  
25 A. I'll do my best.



WILLIAM SNYDER, III

Page 150

1 Q. It's Exhibit 1651 just a few exhibits ago.  
 2 A. Danforth. Douglas Danforth. I know I called  
 3 him. I'm pretty sure I called Sculley. He's  
 4 my neighbor, and I trusted him a lot, but I  
 5 can't be certain, but I'm pretty sure I would  
 6 have called him. I don't know about Edelman.  
 7 I did not call Brenner, because he's in  
 8 Philadelphia. I'd say I called Barnes and  
 9 Danforth, Sculley, and maybe Edelman.  
 10 Q. And Mr. Nimick as well?  
 11 A. I think I called Nimick. I'm not positive of  
 12 that, but I think I did. He's an old -- very  
 13 old hand -- old head.  
 14 Q. And when you called these other board members,  
 15 I take it that you started off by explaining to  
 16 them what Dr. Shannon and the other doctors had  
 17 told you?  
 18 A. I opened the meeting -- the conversation with  
 19 my meeting with those four doctors and  
 20 explained what they said and how they felt, and  
 21 that I could heartily agree that it was time to  
 22 pull the plug on him.  
 23 Q. I'm sorry. I didn't quite hear that.  
 24 A. It was time for him to go.  
 25 Q. All right. So that was a view that you

Page 151

1 expressed when you called up these other board  
 2 members?  
 3 A. Yes, yes, yes.  
 4 Q. Do you recall what views, if any, they  
 5 expressed in these telephone calls with you?  
 6 A. Well, they all agreed. I do remember that. I  
 7 don't know what views they expressed, but they  
 8 agreed in one form or another.  
 9 Q. Do you remember any trustee coming to you  
 10 before this Sunday afternoon meeting at  
 11 Dr. Shannon's house --  
 12 A. That's a very good question.  
 13 Q. -- to suggest that Mr. Abdelhak should be  
 14 replaced?  
 15 A. I can't give you a name, but it runs in the  
 16 back of my head that somebody did come to me  
 17 about that. I don't remember who it was,  
 18 though, and it certainly was in my mind too.  
 19 Q. Do you recall whether the topic of the  
 20 repayment of the Mellon Bank loan was part of  
 21 the conversation at Dr. Shannon's house?  
 22 A. I can't recall whether it was or not. That's a  
 23 good point, though. I just don't remember.  
 24 Q. And so then on Tuesday, you called Mr. Abdelhak  
 25 into your office and fired him?

Page 152

1 A. Yes.  
 2 Q. And what did he say in this meeting?  
 3 A. You don't want to put that in the minutes.  
 4 Q. He was upset?  
 5 A. Oh, that's putting it very mildly. The main  
 6 thing he said to me was that I was making the  
 7 biggest mistake of my entire life, and he was  
 8 raving, climbing the walls, so to speak.  
 9 Q. Had you ever given any previous warning to him  
 10 that his job was in jeopardy?  
 11 A. No. No.  
 12 Q. Well, I think I may have marked this last week,  
 13 but I don't have the marked version here, so  
 14 I'll mark as Exhibit 1677 a one-page document  
 15 with Bates No. TACO 52826.  
 16 - - - -  
 17 (Exhibit 1677 marked for identification.)  
 18 - - - -  
 19 BY MR. RYAN:  
 20 Q. And if you could just take a moment to review  
 21 that, please, Mr. Snyder.  
 22 A. Yes, sir.  
 23 Q. And is this a letter that you sent to  
 24 Mr. Abdelhak dated June 5, 1998?  
 25 A. Yes.

Page 153

1 Q. And I take it then this letter you more  
 2 formally, in writing, advised him of a decision  
 3 you had already told him about already?  
 4 A. That's what it was for.  
 5 Q. And do you recall that before you sent this  
 6 letter, there was a meeting of the executive  
 7 committee of the board to discuss it?  
 8 A. Yes.  
 9 Q. And what do you recall about that meeting?  
 10 A. Nothing, except that, as far as I know, it was  
 11 unanimous to go through with this.  
 12 Q. And whom -- well, strike that.  
 13 Who was selected to replace  
 14 Mr. Abdelhak?  
 15 A. Anthony Sanzo.  
 16 Q. And who made that decision?  
 17 A. Well, we had a meeting, a discussion about it,  
 18 and I don't know whether it was in executive  
 19 committee or what it was, but there were a  
 20 number of people, trustees that were in on  
 21 that. It was also my recommendation.  
 22 Q. And why was Mr. Sanzo your --  
 23 A. Well, he had all kinds of experience in this  
 24 field, and he was known by all the trustees.  
 25 He reported at nearly all the board meetings.

WILLIAM SNYDER, III

<p style="text-align: right;">Page 186</p> <p>1 might be associated with those something that  2 you were previously focused on?  3 A. Well, Sherif had talked to me about them, but  4 that's all I can say.  5 Q. Sherif Abdelhak, I assume, thought they were a  6 good idea?  7 A. Oh, yes.  8 Q. Did he also talk about how they were novel to  9 the organization?  10 A. No. Maybe he did. I don't remember that.  11 Q. Do you remember him talking about the  12 short-term problems with getting up and running  13 with the infrastructure needed to support risk  14 contracts?  15 A. No.  16 MR. RYAN: Okay. Why don't we call a  17 halt today, and I'll try to wrap it up as soon  18 as I can tomorrow morning, Mr. Snyder.  19 THE WITNESS: All right.  20 THE VIDEOGRAPHER: We're now going  21 off the record. The time on the screen is  22 4:00.  23 -----  24 (The proceedings were recessed at 4:00 p.m.)  25 -----</p>	<p style="text-align: right;">Page 188</p> <p>1 COMMONWEALTH OF PENNSYLVANIA ) E R R A T A  COUNTY OF ALLEGHENY ) S H E E T  2  3 I, WILLIAM SNYDER, III, have read the foregoing  4 pages of my deposition given on Tuesday, July 15,  5 2003, and wish to make the following, if any,  6 amendments, additions, deletions or corrections:  7 Page/Line Should Read Reason for Change  8  9  10  11  12  13  14  15  16  17  18  19  20 In all other respects, the transcript is true and  21 correct.  22  23 -----  24 WILLIAM SNYDER, III  25  26 Subscribed and sworn to before me this  27 ----- day of -----, 2003.  28  29 -----  30 Notary Public  31 AKF Reference No. JB76368</p>
<p style="text-align: right;">Page 187</p> <p>1 COMMONWEALTH OF PENNSYLVANIA ) CERTIFICATE  2 COUNTY OF ALLEGHENY ) SS:  3 I, JoAnn M. Brown, RMR, CRR, a Court Reporter  4 and Notary Public in and for the Commonwealth of  5 Pennsylvania, do hereby certify that the witness,  6 WILLIAM SNYDER, III, was by me first duly sworn to  7 testify to the truth; that the foregoing deposition  8 was taken at the time and place stated herein; and  9 that the said deposition was recorded  10 stenographically by me and then reduced to printing  11 under my direction, and constitutes a true record of  12 the testimony given by said witness.  13 I further certify that the inspection, reading  14 and signing of said deposition were NOT waived by  15 counsel for the respective parties and by the  16 witness.  17 I further certify that I am not a relative or  18 employee of any of the parties, or a relative or  19 employee of either counsel, and that I am in no way  20 interested directly or indirectly in this action.  21 IN WITNESS WHEREOF, I have hereunto set my hand  22 and affixed my seal of office this 18th day of July,  23 2003.  24 -----  25 Notary Public</p>	

**Spargo Dep.**

Stephen Spargo

Page 1

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF  
UNSECURED CREDITORS OF  
ALLEGHENY HEALTH, EDUCATION &  
RESEARCH FOUNDATION,

Plaintiff,

Civil Action

No. 00-684

vs.

PRICEWATERHOUSECOOPERS, L.L.P.,

Defendant.

Videotape deposition of STEPHEN H.  
SPARGO, called for examination under the statute,  
taken before me, Jaci R. Traver, RPR, CRR, and  
Notary Public in and for the State of Ohio, at  
the offices of Jones Day, 500 Grant Street,  
Pittsburgh, Pennsylvania, on Thursday, the 17th  
day of July 2003 at 9:30 a.m.

- - - - -

Stephen Spargo

<p style="text-align: right;">Page 58</p> <p>1 A. SMS.</p> <p>2 Q. What is the general purpose of the</p> <p>3 general ledger at a hospital?</p> <p>4 A. To --</p> <p>5 Q. Or at a health system.</p> <p>6 A. Keep track of or to record</p> <p>7 basically all the transactions that represent</p> <p>8 in financial terms everything that goes on in</p> <p>9 an organization or in a hospital or healthcare</p> <p>10 system.</p> <p>11 Q. And it is from the general ledger</p> <p>12 system that the financial statements are</p> <p>13 eventually generated?</p> <p>14 A. That's correct.</p> <p>15 Q. And in particular, the statement of</p> <p>16 operations and the balance sheet?</p> <p>17 A. That's correct.</p> <p>18 Q. In the AHERF general ledger system,</p> <p>19 during the time period we just referred to in</p> <p>20 1993 and 1997, were all affiliates' activities</p> <p>21 tracked in the same general ledger?</p> <p>22 A. I believe so.</p> <p>23 Q. Who all had the ability or</p> <p>24 authorization to make entries into the general</p> <p>25 ledger system? Was it a great number of</p>	<p style="text-align: right;">Page 60</p> <p>1 Q. Did you have to have a number of</p> <p>2 signatures, or could any of these people you</p> <p>3 just identified authorize an entry, if you</p> <p>4 know?</p> <p>5 A. I don't know. I mean, ideally, all</p> <p>6 the way down to the accountants could initiate</p> <p>7 an entry, and depending on the magnitude of the</p> <p>8 entry and the accounts affected, that entry</p> <p>9 could be made with only signoff of their</p> <p>10 immediate supervisor.</p> <p>11 Larger items or different types of</p> <p>12 items may be a supervisor would have to</p> <p>13 initiate based on input from a staff</p> <p>14 accountant. And a manager would have to</p> <p>15 initial that.</p> <p>16 Q. I think what you're describing, and</p> <p>17 correct me if I'm wrong, is that there was a</p> <p>18 protocol in place, you may not now recall the</p> <p>19 detail of it, or you may not have known it at</p> <p>20 the time because of your sort of lofty post, if</p> <p>21 you will, but there was a protocol involved</p> <p>22 with respect to signoffs that may have involved</p> <p>23 dollar amounts?</p> <p>24 A. I believe there was. Yes.</p> <p>25 Q. You were, obviously, involved with</p>
<p style="text-align: right;">Page 59</p> <p>1 people, limited number of people, or do you</p> <p>2 recall?</p> <p>3 A. A great number of people.</p> <p>4 Q. And were those folks all officed or</p> <p>5 housed in Pittsburgh, or could general ledger</p> <p>6 entries be made by people who might be working</p> <p>7 or resident in the east during the time you</p> <p>8 were involved?</p> <p>9 A. Well, during the majority of the</p> <p>10 time, up until about the very end, it was both</p> <p>11 east and west, but eventually it became housed</p> <p>12 in Pittsburgh.</p> <p>13 Q. Okay. And was there a level of</p> <p>14 seniority that attached to somebody authorized</p> <p>15 to make entries into the general ledger or did</p> <p>16 they simply have to have the authority or</p> <p>17 signoff of somebody else to make the entry?</p> <p>18 A. Many times it's just the signoff of</p> <p>19 somebody else.</p> <p>20 Q. Who had signoff authority for the</p> <p>21 entry?</p> <p>22 A. An accounting supervisor, an</p> <p>23 accounting manager, an accounting director.</p> <p>24 All the way up to me or Mr. McConnell,</p> <p>25 technically.</p>	<p style="text-align: right;">Page 61</p> <p>1 the audit process at AHERF on an annual basis?</p> <p>2 A. Yes, I was.</p> <p>3 Q. In the position you held both at</p> <p>4 AGH and at AHERF?</p> <p>5 A. That's correct.</p> <p>6 Q. And as a part of the audit process</p> <p>7 or otherwise, did you come to understand or</p> <p>8 know that Coopers &amp; Lybrand folks would have</p> <p>9 access to general ledger information?</p> <p>10 A. Oh, yes.</p> <p>11 MR. RYAN: Objection.</p> <p>12 Q. As a part of their only audit work.</p> <p>13 A. Absolutely.</p> <p>14 Q. How is it that you came to know</p> <p>15 that?</p> <p>16 A. Well, the whole purpose, I mean in</p> <p>17 order to conduct an audit, you've got to</p> <p>18 provide your auditors with basically</p> <p>19 unrestricted access to whatever records they</p> <p>20 felt they needed to support the balances and</p> <p>21 entries made in our books and records.</p> <p>22 Q. So they could examine the general</p> <p>23 ledger activity electronically or in paper</p> <p>24 format?</p> <p>25 A. Yes.</p>

16 (Pages 58 to 61)

Stephen Spargo

<p style="text-align: right;">Page 62</p> <p>1 Q. Was that the case for you when you 2 were at an auditor and audited the other 3 healthcare organizations we mentioned earlier 4 today? 5 A. Yes. Although, you know, way back 6 when, there was just more paper and less 7 electronic, you know, visualization. 8 Q. Right. 9 A. But always unrestricted access to 10 records. 11 Q. Were you ever aware of anyone ever 12 denying Coopers access to the general ledger 13 electronically or in paper format? 14 A. Never. 15 Q. If that had come to your attention, 16 would you have told them that that should not 17 be the case? 18 A. Absolutely. 19 Q. Did you ever yourself -- let me ask 20 this question, rather than the one I just 21 started. 22 Was the move to more electronically 23 based general ledger systems one that 24 facilitated the work of internal accounting 25 personnel and auditors in reviewing</p>	<p style="text-align: right;">Page 64</p> <p>1 monthly financial statements -- 2 A. That's correct. 3 Q. -- during this time period? 4 A. That's correct. 5 Q. '93 to '97? 6 A. That's correct. 7 Q. How, generally, were those 8 compiled, the monthly -- I take it these are 9 internal financial statements that we're 10 referring to? 11 A. Yes. 12 Q. Or that you were referring to in 13 response to my question. 14 A. That's correct. 15 Q. How were these internal financial 16 statements compiled, generally? 17 A. We had a closing process that was 18 very formalized. Mr. Cancelmi and Mr. Adamczak 19 would publish prior to the close of a month 20 what the closing schedule would be for that 21 month by day and what types of entries had to 22 be posted by day three, which ones by day four, 23 when did they do the review by day five, when 24 did they present it to me for day six, and when 25 Mr. McConnell saw it day seven. And they</p>
<p style="text-align: right;">Page 63</p> <p>1 transactions history as compared to paper 2 trails, in your view? 3 A. I think so, yes. 4 Q. Why is that the case? 5 A. Because you have more instant 6 access to more vaster amounts of information. 7 Q. Also -- 8 A. Quickly. 9 Q. -- less likely to have things lost? 10 A. Yes. Yes. 11 Q. Let's shift gears momentarily to 12 the preparation of financial statements. 13 AHERF and its affiliates during the 14 time you were at AHERF prepared various types 15 of financial statements. Am I right? 16 A. Yes. 17 Q. At least various in that they were 18 prepared for various time periods. 19 A. Various time periods and various 20 entities. 21 Q. Yes. And it depended on the 22 organizational structure and breadth of the 23 system as it developed, in part. 24 A. Correct. 25 Q. AHERF and its affiliates prepared</p>	<p style="text-align: right;">Page 65</p> <p>1 basically set about the task of making sure all 2 the entries were posted, all accounts balanced 3 and where possible, accounts reconciled in 4 conjunction with that predetermined schedule. 5 Q. Did Mr. Adamczak and Mr. Cancelmi 6 assign responsibilities for individual 7 hospitals to individual accountants? 8 A. They did. 9 Q. Okay. So there would have been a 10 lead accountant for, at various times, HUH, 11 MCP, Bucks, and the like? 12 A. That's correct. 13 Q. And then Mr. Cancelmi and Adamczak 14 would then have reviewed the financial 15 statements generated by these point persons for 16 any consolidating that needed to be done, or 17 for at least review purposes? 18 A. Correct. In between Mr. Cancelmi, 19 Mr. Adamczak and these point persons would be 20 managers who would have the first review, 21 before it got to Dan or Al. 22 Q. What level of -- who were the 23 managers, generally? 24 A. Chuck Lisman for the east and Jack 25 Lydon for the west.</p>

17 (Pages 62 to 65)



Stephen Spargo

Page 122

1 helps calculate the allowance; is that right?

2 A. Yes, sir.

3 Q. It has aging groupings as a row  
4 across the top, and I know it's difficult to  
5 read, but they range, I think, if my eyesight  
6 is accurate, from zero to 30 days out, to 211  
7 to 360 days out; is that fair to say?

8 A. That's correct.

9 Q. And this is, I believe, I can tell  
10 you that the document appears to be produced by  
11 Coopers & Lybrand, but in your experience with  
12 the Coopers & Lybrand audits of AHERF, the type  
13 of schedule that they would request and review  
14 in connection with their audit of accounts  
15 receivable at the organization?

16 A. Yes.

17 Q. And how were the percentages that  
18 we see applied to these various aging buckets  
19 ranging from, I think, in the first sets of  
20 rows under self-pay from 1 percent to  
21 75 percent, arrived at, in your experience?

22 A. How were they arrived at?

23 Q. Yes.

24 A. Educated guesses.

25 Q. Was it based on historical

Page 124

1 the whole bucket approach was close.

2 Q. Was that kind of testing done while  
3 you were in AHERF, both for eastern and western  
4 hospital organizations?

5 A. Yes, it was.

6 Q. I note that this particular  
7 schedule does not have a category for an  
8 accounts receivable bucket beyond 360 days old.  
9 Do you -- am I reading the schedule right?

10 A. You are. But I can't say as a  
11 matter of factly, but what I would assume from  
12 the schedule is what that last column really  
13 says is 211 and greater. I doubt they would  
14 have ignored anything over 360 days or less.

15 Q. That was going to be my next  
16 question. From your experience both at AGH and  
17 at AHERF, do you recall whether there was a  
18 reason for not having a category of 360 days  
19 plus?

20 A. No. No. Unless -- and I don't  
21 know if we used this at Allegheny, but I see  
22 this at clients more currently is sometimes  
23 anything over a year old you don't need to  
24 apply this bucket approach, because you're  
25 assuming 100 percent is going to be written

Page 123

1 experience, to the extent it was available?

2 A. If --

3 MR. RYAN: Objection.

4 A. If it's available, you base it on  
5 historical experience, yes.

6 Q. And if --

7 A. Availability of meaningful data is  
8 not as easy as it sounds.

9 Q. If not historical experience, were  
10 you aware of testing, other than historical  
11 experience, conducted at AHERF with respect to  
12 these percentages or percentages like them?

13 A. Yes.

14 Q. What kind of testing was done?

15 A. We would, Mr. Cancelmi particularly  
16 would model different percentages, particularly  
17 looking at accounts receivable on a historical  
18 basis, and then compare the results of using  
19 those percentages to what was really written  
20 off as bad debts over a defined time period, 3,  
21 6, 9, 12 months, to see if those percentages in  
22 total were close to what really happened.

23 You wouldn't really know if

24 Medicare was right on and Blue Cross was off  
25 and self-pay was real low, but you would know

Page 125

1 off, so you may keep it off the schedule just  
2 to make it less confusing.

3 Q. You don't recall whether that was  
4 AGH's approach in '96 or not?

5 A. I don't. I don't believe it was  
6 their approach, to be honest with you.

7 Q. But that is an approach that  
8 healthcare organizations, in your experience,  
9 have used?

10 A. Yes.

11 Q. The reasoning there is generally  
12 that if it's more than a year old, in simple  
13 terms, you ain't going to collect?

14 A. No. No.

15 MR. RYAN: Objection.

16 Q. Is that right?

17 MR. RYAN: Objection.

18 A. That's correct. You don't have a  
19 snowball's chance of, you know what, of  
20 collecting it.

21 Q. Let me ask you now to look at  
22 another exhibit that we marked. It's Exhibit  
23 7, apparently very early on in the proceedings.

24 If you could identify the document  
25 for me, it would be helpful. I think you will

32 (Pages 122 to 125)

Stephen Spargo

Page 126

1 recognize it as an October 16, 1995 letter from  
2 Coopers & Lybrand to the board of trustees of  
3 Allegheny Health Education and Research  
4 Foundation, commonly referred to as a  
5 management letter?

6 A. That's correct.

7 Q. And you came to see management  
8 letters from Coopers & Lybrand to the board  
9 from time to time during your years at AHERF?

10 A. Yes, annually.

11 Q. And you got a copy as a matter of  
12 course?

13 A. Oh, yes.

14 Q. I'm going to ask you to refer,  
15 then, to a particular page of the document.  
16 And it's 7 of 22, along the right-hand margin,  
17 or 5, if you're looking at the numbers at the  
18 base of the page.

19 A. Okay.

20 Q. And in management letters received  
21 from Coopers & Lybrand while you were at AHERF,  
22 they periodically would comment on accounts  
23 receivable and the allowance for doubtful  
24 accounts; is that consistent with your  
25 recollection?

Page 128

1 receivable balances were growing significantly.  
2 The reserve for bad debts was not increasing in  
3 proportion. And with an underlying belief that  
4 the patient accounting department was not  
5 fulfilling their responsibilities.

6 Q. And I think what you started to  
7 tell us at the outset of this conversation  
8 about these allowances, that, in fact, there  
9 were different methodologies used in different  
10 organizations?

11 A. Yes.

12 Q. I'm going to ask you to look down  
13 at the recommendation portion of that  
14 subsection of the management letter.

15 A. Yes, sir.

16 Q. Do you see that?

17 A. I do.

18 Q. Can you read the last sentence for  
19 me.

20 A. "We believe that the current  
21 methodology utilized by AGH should be  
22 considered for application at all AHERF  
23 hospitals."

24 Q. Do you recall that recommendation?

25 A. Yes.

Page 127

1 A. Yes.

2 Q. Here they appear to so comment at  
3 the top of the page under the heading,  
4 "methodology for establishing bad debt reserves  
5 should be applied consistently," and that's  
6 underlined. Do you see that?

7 A. I sure do.

8 Q. Do you recall that Coopers &  
9 Lybrand auditors expressed to you, separate and  
10 apart from this management letter, concern  
11 about application of a consistent methodology  
12 across hospitals?

13 A. I don't recall specifically, but if  
14 I had to surmise, we probably expressed a  
15 concern to them, asked them to help express it  
16 to us and others.

17 Q. Who do you mean by us and others?

18 A. Meaning the rest of the  
19 organization.

20 Q. Because you thought that was an  
21 issue that ought to be addressed?

22 A. Absolutely.

23 Q. And your concern there was based on  
24 what?

25 A. On the fact that the accounts

Page 129

1 Q. And do you recall it being  
2 expressed to you other than in this management  
3 letter?

4 A. I recall us expressing it.

5 Q. To Coopers & Lybrand?

6 A. To Coopers & Lybrand and to our  
7 colleagues in finance.

8 Q. Who do you mean by your colleagues  
9 in finance?

10 A. Mr. McConnell, Mr. Dienisio,  
11 Mr. Snow. Anybody who would listen.

12 Q. So you recall bringing this to the  
13 attention of the auditors as a problem area and  
14 a potential assist in dealing with that problem  
15 area?

16 A. That's correct.

17 Q. Do you recall any reaction you got  
18 from Coopers & Lybrand, other than, perhaps,  
19 the entry here in the management letter?

20 A. Oh, I think they concurred, yeah.  
21 It wasn't met with resistance.

22 Q. Do you recall receiving the  
23 management letter each year in connection with  
24 the audit process while you were at AHERF?

25 A. Yes.

33 (Pages 126 to 129)

Stephen Spargo

Page 130

1 Q. So you believe you would have  
2 received and reviewed this one at or about the  
3 time it was issued, and I'm going here only  
4 from the date of the letter, mid October 1995?

5 A. I helped write these letters.

6 Q. And you say you helped write these  
7 letters?

8 A. Yes.

9 Q. In what way did you help write  
10 these letters? First, can you answer my  
11 question, you did receive them and review  
12 them --

13 A. Yes.

14 Q. -- at the time they were issued?

15 A. Yes.

16 Q. In each of the fiscal years?

17 A. Yes.

18 Q. What do you mean by you helped  
19 write the letters?

20 A. I also received and review them  
21 prior to their issuance and had an opportunity  
22 to -- after we agreed on the content, in terms  
23 of the items to be addressed, then an  
24 opportunity to address or edit how they were  
25 presented.

Page 131

1 Q. And you proposed comments then to  
2 Coopers & Lybrand?

3 A. Yes. Verbally proposed comments.  
4 And then once their draft came, inserted  
5 suggested language that may have been stronger,  
6 may have been softer, may have been more  
7 grammatically correct. Anything was fair game.

8 Q. And you moved, for the purposes of  
9 the written record, you moved your hand there  
10 in a way that suggested to me that you were  
11 indicating that you actually wrote comments by  
12 hand on drafts of the management letter; is  
13 that correct?

14 A. I did.

15 Q. That's, in fact, what you did?

16 A. That's exactly what I did.

17 Q. And sometimes your comments were  
18 accepted and sometimes they were not?

19 A. Correct.

20 Q. Do you have a recollection of  
21 proposing in particular at the time of the  
22 management letter that the AGH methodology  
23 referred to in this management letter be  
24 utilized across hospitals?

25 A. I don't have a specific

Page 132

1 recollection, no.

2 Q. Do you recall, Mr. Spargo, in  
3 connection with this 1995 management letter, or  
4 before it, that Coopers was made aware of or  
5 expressed to you, either, a concern more than  
6 just with the consistency of the application of  
7 any given methodology, but also with the  
8 validity or the accuracy of the underlying  
9 methodology of accounts receivable, aging and  
10 allowance determination?

11 A. Yes.

12 Q. And what was it that you recall  
13 about that?

14 A. Well, it was fairly widely  
15 understood amongst we AHERF accountants and  
16 Coopers how difficult it was to audit accounts  
17 receivable, the difficulty in obtaining  
18 meaningful information to facilitate that audit  
19 process. And more importantly, the  
20 deteriorating conditions of our accounts  
21 receivable.

22 Q. And the concern was shared by you  
23 and the auditors that the actual valuation of  
24 the allowance may be problematic, given the set  
25 of circumstances?

Page 133

1 A. Yes.

2 Q. And may be inaccurate?

3 A. Yes.

4 Q. And needed to be addressed?

5 A. Yes.

6 Q. Was there a concern that this was  
7 more a problem of eastern hospitals?

8 A. Yes.

9 Q. And particularly in the Delaware  
10 Valley Obligated Group?

11 A. Yes, definitely.

12 Q. I'm going to hand you now what  
13 we've marked as Exhibit 1523, apparently more  
14 recently in the proceedings, and ask you to  
15 take a look at that.

16 It has a face page entitled,  
17 "Critical Matters." Again, appears to be a  
18 schedule. This one headed, "Allegheny Health  
19 Education and Research Foundation, Summary of  
20 A/R Reserve, assuming AGH reserve philosophy,"  
21 and it's dated June 30th, 1995. Do you see  
22 that?

23 A. I do.

24 Q. Have you seen this document before?

25 A. No, I don't believe so. It's not

34 (Pages 130 to 133)

Stephen Spargo

Page 134

1 in recent testimony.

2 Q. Do you recall receiving it at the  
3 time you were at AHERF?

4 A. No, sir.

5 Q. I'm going to direct your attention  
6 to the note appended to the schedule at Page 2.  
7 Are you with me?

8 A. Handwritten or typed?

9 Q. The typed. The note reads, C  
10 ampersand L, "C & L, assess the adequacy of  
11 each of AHERF's individual hospitals," then it  
12 lists certain of them parenthetically,  
13 "accounts receivable reserves by applying AGH's  
14 reserve percentage to each aging category of  
15 outpatient and inpatient receivable."

16 Did I read that accurately?

17 A. Uh-huh.

18 Q. Do you recall -- is that a yes?

19 A. Yes, that was a yes, I'm sorry.

20 Q. Do you recall becoming aware that  
21 this analysis was done in this time period by  
22 Coopers & Lybrand?

23 A. I don't recall, but I'm not  
24 surprised it was done.

25 Q. In the last sentence of the note --

Page 136

1 Valley was under-reserved. I mean they could  
2 have definitely had a different methodology,  
3 and had it produced a reserve that we all felt  
4 was appropriate, there would be no issue with  
5 using different methodologies. That comment  
6 wouldn't have existed in the management letter.

7 It's the fact that the reserve was  
8 understated that led to, hey, you might want to  
9 think about using a different methodology.

10 Q. I think what you're telling us is  
11 that the fundamental concern that the auditors  
12 had and that you had was that you were  
13 under-reserved in the Delaware Valley?

14 A. That's absolutely right.

15 Q. And you knew this from interactions  
16 at the various weekly meetings?

17 A. Yes.

18 Q. During the audit year?

19 A. Yes.

20 Q. I'm handing you now, and trying not  
21 to you have cut by a staple, Exhibit 113.

22 A. I wouldn't want to cut this short.

23 Q. Mr. Spargo, which is another set of  
24 schedules I'm going to ask you to review for  
25 me, briefly.

Page 135

1 or of the first paragraph of the note, rather,  
2 says, "C & L then used this adjusted difference  
3 to," something, it seems to be missing a word,  
4 "the amount to be posted to the summary of  
5 unadjusted differences."

6 Did I read that accurately?

7 A. You did.

8 Q. And the summary of unadjusted  
9 differences is what, as you understood the  
10 audit process ongoing between AHERF and its  
11 auditors?

12 A. That's the schedule of adjustments  
13 that could be booked that weren't.

14 Q. Or that might be?

15 A. That might be.

16 Q. Do you recall any specific  
17 weaknesses about the DVOG, or Delaware Valley  
18 Obligated Group, methodologies that you  
19 discussed with the auditors that may have led  
20 them to do testing like this or comparisons  
21 like this between those enterprises and AGH?

22 A. I don't. I don't recall those  
23 discussions. You know, I don't know that the  
24 fact that they used different methodologies was  
25 as troubling as the fact that the Delaware

Page 137

1 Starts on the page that reads,  
2 "Allegheny University Hospitals, Elkins Park,"  
3 and it has a summary set of rows with headings  
4 that include the words "PATCOM and Invision  
5 reserves." Do you see that?

6 A. I do.

7 Q. What do you recall the words  
8 "PATCOM and Invision" refer to?

9 A. PATCOM was the patient accounting  
10 system that they had used historically at some  
11 of the hospitals in the east, which was being  
12 phased out and all the hospitals were put on  
13 the Invision system.

14 Q. When you say "patient accounting  
15 system," you mean sort of a collections and  
16 accounts receivable system?

17 A. Yes. Billing and collections and  
18 accounts receivable.

19 Q. Do you see the figure in row titled  
20 A-d-j, or adjusted, inpatient R-e-q A-l-l-o-w?

21 A. I do.

22 Q. Do you recall receiving this  
23 schedules or set of schedules during your time  
24 at AHERF?

25 A. I can't tell you that I recall, but

35 (Pages 134 to 137)

Stephen Spargo

Page 138

1 I very well could have.  
 2 Q. You received schedules like this,  
 3 in any event?  
 4 A. Yeah.  
 5 Q. Do you see that the number under  
 6 the row we just mentioned has a total of --  
 7 under the Invision reserve has a total of  
 8 \$931,792?  
 9 A. Yes.  
 10 Q. If you would flip to Page 3 of the  
 11 document, you'll see a page that starts, again,  
 12 with the heading, "Elkins Park Hospital  
 13 inpatient bad debt reserve calculation," and  
 14 that totals that to same figure.  
 15 A. Yes, it does.  
 16 Q. That's with a row heading,  
 17 "required reserve"; is that right?  
 18 A. Yes.  
 19 Q. And those two figures then tie?  
 20 A. Yes, they do.  
 21 Q. Ask you to flip to Page 18 of the  
 22 document.  
 23 A. Eighteen of 27?  
 24 Q. Yes, sir. Again, we find that --  
 25 we find a total inpatient requirement allowance

Page 139

1 in roughly the same figure, \$983,000 there  
 2 under billed and unbilled total, do you see  
 3 that, under total inpatient requirements  
 4 allowance?  
 5 A. I do.  
 6 Q. Are you able to conclude from  
 7 that -- I'm sorry, it's 983,000, ties with the  
 8 PATCOM reserve at the front page?  
 9 A. Yes, it does.  
 10 Q. The opening page?  
 11 A. Yes, it does.  
 12 Q. The \$983,000 figure?  
 13 A. Correct.  
 14 Q. Are you able to conclude from that  
 15 that the first pages is, that is 2 to 12 of the  
 16 document, deals with Invision accounts, while  
 17 the remainder deals with, starting on Page 13,  
 18 deals with PATCOM accounts, from a quick  
 19 review?  
 20 A. Certainly looks that way, yes.  
 21 Q. I want to compare just a couple of  
 22 these reserve percentages with you briefly. If  
 23 you look at Page 4 of 27.  
 24 A. Okay.  
 25 Q. You see here some Invision account

Page 140

1 percentages, am I right, for various payors or  
 2 bucket percentages?  
 3 A. I'm assuming they're Invision, yes.  
 4 Q. We note that Blue Cross, for  
 5 instance, has a percentage, if you look in the  
 6 out buckets, that is, the 181 to 270 days out  
 7 we see a percentage of 60 percent, right?  
 8 A. Right.  
 9 Q. 271 to 365 days out carries a  
 10 percentage of 70 percent?  
 11 A. Correct.  
 12 Q. Medicare, under the Medicare payor  
 13 row, those percentages go from 40 to  
 14 60 percent?  
 15 A. Correct.  
 16 Q. Ask you to turn now to Page 17 of  
 17 27. Let your fingers do the walking.  
 18 A. Okay. Good to go.  
 19 Q. In a similar payor category we now  
 20 look at Medicare again.  
 21 A. Correct.  
 22 Q. We see very different percentages  
 23 in the same aging buckets; am I right?  
 24 A. We do.  
 25 Q. Those percentages are, in fact,

Page 141

1 what?  
 2 A. For Medicare they're 5 and  
 3 30 percent.  
 4 Q. Significantly lower?  
 5 A. Definitely.  
 6 MR. RYAN: Objection.  
 7 Q. I would ask you to look at the Blue  
 8 Cross percentage, too.  
 9 A. Blue Cross is 10 and 30 as opposed  
 10 to what we see before, 60 and 70.  
 11 Q. Can you explain why these  
 12 percentages were so different?  
 13 A. No.  
 14 Q. Which one appears to be more  
 15 conservative?  
 16 A. Certainly Page 4 of 27.  
 17 Q. So Invision was significantly more  
 18 conservative, at least on these accounts, than  
 19 PATCOM?  
 20 A. Correct.  
 21 Q. But for the same patients, the same  
 22 hospitals, and the same payor groups?  
 23 A. Correct.  
 24 Q. Which percentages in your  
 25 experience both auditing hospital organizations

36 (Pages 138 to 141)



Stephen Spargo

Page 142

1 in this time period and working in the position  
2 you worked in at AHERF appear to be more  
3 reasonable?

4 MR. RYAN: Objection.

5 A. The Invision percentages,  
6 certainly.

7 Q. Did you discuss the adequacy of  
8 these percentages, that is, the PATCOM  
9 percentages, with others at AHERF at the time?

10 A. I don't recall discussing the  
11 individual reserve percentages. I do recall  
12 trying to make a case that the PATCOM balances  
13 in their entirety should be a hundred percent  
14 reserved.

15 Q. Did you make that case with the  
16 auditors as well?

17 A. I don't know.

18 Q. You certainly discussed the problem  
19 with the auditors?

20 A. Yes.

21 Q. With whom did you have those  
22 discussions?

23 A. It would have been at our Friday  
24 meetings.

25 Q. So the usual attendees would have

Page 144

1 A. And they need to be increased  
2 substantially.

3 Q. Who would that case have been made  
4 -- who would it have been helpful, in your  
5 view, for that case to have been made to?

6 A. Mr. McConnell and Mr. Dienisio and  
7 Mr. Snow.

8 Q. And to your knowledge, it wasn't  
9 made?

10 A. No.

11 Q. Why were you yourself not allowed  
12 to implement that change, do you know?

13 A. Because I was a keeper of the  
14 books. Mr. Dienisio was responsible for the  
15 accounting, or patient accounting function, and  
16 Mr. Snow was his direct report. So it was his  
17 responsibility to accumulate charges, to  
18 prepare claims for submission to the payors, to  
19 ultimately receive cash, assess the  
20 credit-worthy collectability on account  
21 balances.

22 Q. Was it also ultimately  
23 Mr. McConnell's call?

24 A. Oh, yeah.

25 Q. Did you ever raise the suggestion

Page 143

1 heard you?

2 A. Definitely.

3 Q. This would have -- these  
4 conversations would have taken place during the  
5 fiscal year 1995 and 1996?

6 A. Yes. Yes.

7 Q. Did you ever receive any  
8 instructions from Coopers & Lybrand that the  
9 percentages at PATCOM were to be changed and  
10 the reserves elevated?

11 A. Not to my knowledge, no.

12 Q. Would you have done so if asked?

13 A. I've been asking for that -- it  
14 wouldn't have taken them to get me to be able  
15 to do so. If I had the ability to do so, it  
16 would have been done so years before.

17 Q. And it would have been helpful for  
18 them to ask, though?

19 MR. RYAN: Objection.

20 A. It would have been helpful for them  
21 to assert that case to others; not ask, just  
22 say, the reserves are inadequate.

23 Q. And they need to be moved?

24 A. Right.

25 Q. And they need to be increased?

Page 145

1 with Mr. McConnell that these percentages  
2 needed to be changed?

3 A. I raised the suggestion with  
4 Mr. McConnell that our reserves were woefully  
5 inadequate.

6 Q. So same principle, maybe a little  
7 less specific?

8 A. Correct.

9 Q. His response was?

10 A. I hear you.

11 Q. But to your knowledge, you don't  
12 know whether anything was done or not?

13 A. We didn't do much.

14 Q. During the time you were at AHERF,  
15 do you think that problem was adequately  
16 addressed?

17 MR. RYAN: Objection.

18 A. No, sir, I do not.

19 Q. Mr. Spargo, this is another set of  
20 reserve schedules, this one for  
21 St. Christopher's Hospital, which was another  
22 Delaware Valley Obligated Group Hospital,  
23 correct?

24 A. That correct.

25 Q. It, again, is a document that you

37 (Pages 142 to 145)



Stephen Spargo

<p style="text-align: right;">Page 146</p> <p>1 may not recognize today as having received, but  2 certainly is of the kind of schedules that you  3 received during the year and during the audit  4 process while you were at AHERF; am I right?  5 A. That's correct.  6 Q. And it, again, has a PATCOM reserve  7 and Invision reserve set of columns on its face  8 page?  9 A. Correct.  10 Q. I'm going to ask you to look at  11 Page 4 first.  12 A. Yes, sir.  13 Q. For the Invision percentages for  14 Blue Cross and Medicare. Can you tell us what  15 those are for the last two categories of aging?  16 A. Blue Cross is 70 percent for both  17 categories, and Medicare is 60 and 90 percent,  18 respectively.  19 Q. I'm going to ask you to flip, if  20 you would then, to Page 17 of the document.  21 Tell us what you understand to be the, if  22 that's the way you understand it, the PATCOM  23 percentages for the similar pair of groups in  24 the similar aging categories.  25 A. I can't find Blue Cross. Page 17.</p>	<p style="text-align: right;">Page 148</p> <p>1 periodically at AHERF?  2 A. Yes.  3 Q. While you were there?  4 A. Yes.  5 Q. And you received Exhibit 16 and  6 schedules like it from time to time to apprise  7 you of potential reserves that were available  8 for use or adjustments that were available to  9 be made?  10 A. Correct.  11 Q. Do you see that this particular  12 schedule of what is termed "potential  13 adjustments" has a potential exposure category  14 on the second page, toward the bottom, for  15 uncollectable PATCOM accounts?  16 A. Yes.  17 Q. Looks to be the second to last  18 entry in the sets of entries?  19 A. Yes.  20 Q. What's the figure there?  21 A. 25 million.  22 Q. That would be a potential negative  23 exposure; am I right?  24 A. That's correct.  25 Q. Do you recall discussions about</p>
<p style="text-align: right;">Page 147</p> <p>1 Q. But you can find Medicare?  2 A. I can find Medicare percentages are  3 5 and 30.  4 Q. Again, in your view, a significant  5 difference?  6 A. Yes.  7 Q. If you look back at Page 16, I  8 think you're going to find the Blue Cross  9 category, payor category, and I have the same  10 question then.  11 A. Yes. Yes. Those percentages are  12 10 and 20.  13 Q. Another significant difference, in  14 your view?  15 A. Absolutely.  16 Q. I'm going to hand you another  17 exhibit now, Mr. Spargo, which will be Exhibit  18 16 in these proceedings. If we escape this  19 without a paper cut, we'll be lucky.  20 Can you identify this document for  21 me?  22 A. It's a reserve analysis.  23 Q. And it is a --  24 A. Or a cushion analysis, I guess.  25 Q. Is it an analysis that was done</p>	<p style="text-align: right;">Page 149</p> <p>1 this with others at AHERF, this PATCOM  2 potential exposure of up to \$25 million?  3 A. Oh, yeah.  4 Q. With whom had this -- did you have  5 these conversations?  6 A. Mr. McConnell, Mr. Morrison,  7 Mr. Dienisio, Mr. Cancelmi, Mr. Adamczak, Mr.  8 Snow, Mr. Laing.  9 Q. Were these discussions in fiscal  10 year 1996 and before?  11 A. Yeah.  12 Q. And do you recall having similar  13 discussions with the auditors about this  14 potential exposure?  15 MR. RYAN: Objection.  16 A. I can't honestly tell you I recall,  17 but it was a significant item that had to have  18 been discussed.  19 Q. You can't recall maybe the specific  20 amount, but the PATCOM issue was discussed?  21 A. Right. Correct.  22 Q. And the potential exposure there?  23 MR. RYAN: Objection.  24 A. Correct.  25 Q. This would be at weekly update</p>

38 (Pages 146 to 149)

Stephen Spargo

<p style="text-align: right;">Page 150</p> <p>1 meetings?</p> <p>2 A. At the planning meeting, weekly</p> <p>3 update meetings, lunch, ball game.</p> <p>4 Q. Those conversations would have been</p> <p>5 had with whom?</p> <p>6 A. Mr. Buettner, Mr. Kirstein, whoever</p> <p>7 was present. Jeff, whatever his name is. Not</p> <p>8 LeAnn Womack's brother.</p> <p>9 Q. Womer.</p> <p>10 A. Womer, who is auditing A/R in one</p> <p>11 of the years. Brian Christian, I think,</p> <p>12 brought it the one year. It was not a secret.</p> <p>13 Q. It was a widely-known phenomenon?</p> <p>14 A. Yes. Yes.</p> <p>15 Q. Do we -- do you recall as you sit</p> <p>16 here today where the PATCOM percentages came</p> <p>17 from, or did you ever have an understanding?</p> <p>18 A. No.</p> <p>19 Q. Whether or not you recall it today.</p> <p>20 A. I don't recall it, no. I don't</p> <p>21 think any understanding would have been</p> <p>22 believed.</p> <p>23 Q. What created, if you recall,</p> <p>24 typically, exhibit -- I'm sorry, schedules like</p> <p>25 the reserve analysis or potential adjustments</p>	<p style="text-align: right;">Page 152</p> <p>1 A. No.</p> <p>2 Q. In fact, if an auditor asked you</p> <p>3 for this, would you have given it to him?</p> <p>4 A. Sure.</p> <p>5 MR. RYAN: Objection.</p> <p>6 Q. Do you recall providing these to</p> <p>7 auditors?</p> <p>8 A. I didn't provide anything to</p> <p>9 auditors. My staff did.</p> <p>10 Q. I'm sorry, but do you have any</p> <p>11 understanding of whether these were provided to</p> <p>12 auditors?</p> <p>13 MR. RYAN: Objection.</p> <p>14 A. I assume they were.</p> <p>15 Q. Would have been no reason to keep</p> <p>16 them from them; is that fair to say?</p> <p>17 A. That's very fair to say.</p> <p>18 Q. Do you recall an auditor ever</p> <p>19 complaining to you from Coopers &amp; Lybrand that</p> <p>20 there were reserve analyses, cushion analyses</p> <p>21 or analyses of potential adjustments existing</p> <p>22 that they didn't have access to?</p> <p>23 A. No.</p> <p>24 - - - - -</p> <p>25 (Thereupon, Deposition Exhibit 1681</p>
<p style="text-align: right;">Page 151</p> <p>1 marked as Exhibit 16?</p> <p>2 A. This is system-wide, so this could</p> <p>3 have been A1, since it's basically all</p> <p>4 entities. If it were just east, it would be</p> <p>5 Dan. Either Dan or A1.</p> <p>6 Q. It wasn't something that you</p> <p>7 created, but was something you received and</p> <p>8 reviewed?</p> <p>9 A. Yes. Yes. I did definitely not</p> <p>10 create it.</p> <p>11 Q. I notice it doesn't have any</p> <p>12 markings confidential on it or restricted or</p> <p>13 anything else that indicates to me, anyway, any</p> <p>14 restricted list of distributees; am I right?</p> <p>15 A. No, there's no such list or</p> <p>16 restriction, no.</p> <p>17 Q. Do you recall when these were</p> <p>18 circulated that there was any instruction by</p> <p>19 anyone not to share these with anyone,</p> <p>20 including the auditors?</p> <p>21 A. Oh, no.</p> <p>22 MR. RYAN: Objection.</p> <p>23 A. No.</p> <p>24 Q. You don't recall that that was the</p> <p>25 case?</p>	<p style="text-align: right;">Page 153</p> <p>1 was marked for purposes of</p> <p>2 identification.)</p> <p>3 - - - - -</p> <p>4 (Discussion held off the record.)</p> <p>5 Q. You have before you now</p> <p>6 Exhibit 1681. I'm going to ask you to take a</p> <p>7 look at that and then we're going to have a few</p> <p>8 questions about it.</p> <p>9 A. (Witness reviewing document.)</p> <p>10 Okay.</p> <p>11 Q. I'm going to point out for you,</p> <p>12 Mr. Spargo, that the numbers at the base,</p> <p>13 right -- lower right-hand corner of each page</p> <p>14 indicate to me, and Mr. Quinn may know better,</p> <p>15 that this document was produced from your file,</p> <p>16 the SS is the initial from your files, at some</p> <p>17 stage in some of these proceedings.</p> <p>18 But do you recall as you sit here</p> <p>19 today receiving this February 8, 1996 memo from</p> <p>20 Ms. Shaffer to Mr. Cancelmi?</p> <p>21 A. No, I don't recall it.</p> <p>22 Q. It is the kind of a memo headed</p> <p>23 "Delaware Valley Hospitals patient accounts</p> <p>24 receivable agings" that you would have received</p> <p>25 typically?</p>

39 (Pages 150 to 153)

Stephen Spargo

Page 154

1 A. Yes.  
 2 Q. And, in fact, you are cc'ed on the  
 3 last page; do you see that?  
 4 A. Yes.  
 5 Q. Today you don't doubt that you got  
 6 it in or about the time period it was  
 7 generated?  
 8 A. Oh, no, I don't doubt it, no, sir.  
 9 Q. I'm going to ask you to look more  
 10 specifically at the second page of the document  
 11 with the heading Arabic numeral 3, where I  
 12 think it is Ms. Schaffer who writes, "reserve  
 13 calculated on self-pay balances and only the  
 14 patient liability balances for all other payor  
 15 classes."  
 16 Do you see that?  
 17 A. I do.  
 18 Q. And this refers to the MCC/EPPI  
 19 facility; is that right?  
 20 A. Yes.  
 21 Q. Do you recall that this hospital  
 22 reserved the self-pay balances and the patient  
 23 liability balances for all other payor classes?  
 24 A. I don't, no.  
 25 Q. Does that sound to you like a

Page 156

1 at one of the successor enterprises to the  
 2 hospital organization found this in what they  
 3 believe to be your files.  
 4 So I stand corrected if I  
 5 overstated, but that still indicates to me that  
 6 somebody at the time this was produced, and I  
 7 don't know who produced it as I sit here today,  
 8 believed it came from a file that you  
 9 maintained. But if you don't think it was so  
 10 maintained, feel free to tell me.  
 11 A. Oh, no.  
 12 Q. I was just trying to help.  
 13 MR. QUINN: He wanted to clarify.  
 14 Q. You understand what limited  
 15 information I had about it.  
 16 A. I understand.  
 17 Q. But thank you for that  
 18 clarification. It helps me.  
 19 - - - - -  
 20 (Thereupon, Deposition Exhibit 1682  
 21 was marked for purposes of  
 22 identification.)  
 23 - - - - -  
 24 Q. I've handed you now, Mr. Spargo,  
 25 what we marked as Exhibit 1682. Another set of

Page 155

1 suspect method of reserving?  
 2 A. Oh, yeah.  
 3 MR. RYAN: Objection.  
 4 Q. Why so?  
 5 A. Well, it's basically suggesting  
 6 that every other payor category is going to pay  
 7 a hundred percent of what's on the books.  
 8 Q. That isn't consistent with your  
 9 experience, is it?  
 10 A. No, it is not.  
 11 Q. If that were, in fact, the case --  
 12 well, strike that.  
 13 We're about to hand you what we're  
 14 going to mark as Exhibit 1682.  
 15 A. It might be helpful for you to know  
 16 that the SS on the corner, somehow that must  
 17 have been described in one of my depositions,  
 18 but I turned over no documents in response to  
 19 my subpoena, other than my personnel files, so  
 20 my executive pension plan, anything related to  
 21 my contract. But I kept and retained nothing  
 22 when I left.  
 23 Q. It may be, just for your benefit,  
 24 probably more for Mr. Quinn's benefit, that you  
 25 didn't produce this individually, but somebody

Page 157

1 schedules, surprise. This one for the Medical  
 2 College Hospitals, which was a DVOG hospital;  
 3 is that right?  
 4 A. That's recollect.  
 5 Q. It is headed, Selected Accounts  
 6 Receivable Aged Trial Balance by Patient, or  
 7 P-a-t, Name; is that right?  
 8 A. Yes.  
 9 Q. It's dated 3/31/96?  
 10 A. Correct.  
 11 Q. That would have been in the fiscal  
 12 year 1996?  
 13 A. That's correct.  
 14 Q. Can you describe this document  
 15 generally for me? Is it a document with which  
 16 you're familiar?  
 17 A. Not really. It looks like a  
 18 standard system-generated document. And it is  
 19 on this front page just showing at the top by  
 20 aging category the gross balances that are in  
 21 accounts receivable, as well as the portion  
 22 attributable to insurers, and then the  
 23 remaining portion that's patient  
 24 responsibility.  
 25 Q. And this is the MCC/EPPI hospital

40 (Pages 154 to 157)

Stephen Spargo

<p style="text-align: right;">Page 158</p> <p>1 that we just referred to moments ago; is that 2 right?</p> <p>3 A. I believe EPPI is in here as well. 4 Definitely MCP.</p> <p>5 Q. I'm going to direct your attention 6 to the top portion of the document. It appears 7 to me in reading this schedule that of the 8 \$35.7 million of receivables on the main 9 clinical campus, if that's indeed what we're 10 referring to here, only some \$3.1 million were 11 patient balances; is that right?</p> <p>12 A. That's correct.</p> <p>13 Q. And does that mean then that there 14 were zero -- there was a zero percentage 15 reserve assigned to approximately 32.6 million 16 of these receivables on the main clinical 17 campus?</p> <p>18 A. Applying the methodology we saw in 19 that last exhibit, yes.</p> <p>20 Q. Likewise, if you go to the next 21 page, you'll see the EPPI figures, I believe.</p> <p>22 A. Yes.</p> <p>23 Q. And can you tell us -- seems to me 24 that if what you just told us holds true, that 25 it is really \$11.4 million of receivables,</p>	<p style="text-align: right;">Page 160</p> <p>1 address the problem at MCPH/EPPI, at the 2 Medical College or at EPPI, by applying the HUH 3 methodology, the Hahnemann University Hospital 4 methodology?</p> <p>5 A. I don't recall that.</p> <p>6 Q. You don't recall that particular 7 analysis?</p> <p>8 A. No. No.</p> <p>9 Q. Mr. Spargo, I'm now handing you 10 what has been previously marked as 11 Exhibit 1075. It is another set of schedules 12 with it looks to me like it's a Coopers &amp; 13 Lybrand work paper cover sheet.</p> <p>14 Were you familiar with those over 15 time?</p> <p>16 A. No.</p> <p>17 Q. The work paper name, as printed on 18 the face of the page, however, says, "MCPH East 19 Falls inpatient bad debt analysis, 20 6/30/96 using HUH methodology." Do you see 21 that?</p> <p>22 A. I sure do.</p> <p>23 Q. Then there's a set of schedules 24 that follow that; am I right?</p> <p>25 A. There are.</p>
<p style="text-align: right;">Page 159</p> <p>1 against which there is no reserve percentage 2 applied of a total of 12.5 million; am I right?</p> <p>3 A. That's what it appears, yes.</p> <p>4 Q. Do you recall discussions with 5 others at AHERF or Coopers &amp; Lybrand about this 6 particular reserve issue?</p> <p>7 A. I recall noting inadequate reserves 8 throughout the Delaware Valley, particularly at 9 St. Chris and MCP/EPPI.</p> <p>10 Q. So you can't say with specificity 11 that this particular issue was addressed, but 12 you noted these facilities as problematic 13 facilities from the accounts receivable 14 reserving perspective?</p> <p>15 A. That's correct.</p> <p>16 Q. And those would have been had at 17 the -- those conversations, that is, would have 18 been had periodically with AHERF personnel and 19 at the update meetings?</p> <p>20 A. Yes.</p> <p>21 Q. With the auditors?</p> <p>22 A. Yes.</p> <p>23 Q. Do you recall anyone at Coopers &amp; 24 Lybrand or anyone else in AHERF finance 25 suggesting to you that we might evaluate and/or</p>	<p style="text-align: right;">Page 161</p> <p>1 Q. Does this document or any of the 2 schedules that follow refresh your recollection 3 in any way that Coopers &amp; Lybrand, in fact, 4 performed an analysis using HUH as a comparator 5 methodology?</p> <p>6 A. No, it does not. Sorry. I see 7 that they did, but it doesn't cause any 8 recollection on my part.</p> <p>9 Q. Handing you now, Mr. Spargo, what 10 has been marked as Exhibit 22 in this case, 11 which is another management letter. I think 12 you'll tell me it's the management letter you 13 recall receiving for fiscal year 1996 dated 14 September 23, 1996; am I right?</p> <p>15 A. Yes.</p> <p>16 Q. I'm going to ask you just to flip 17 to the last page. I'm sorry, the last section 18 of the document, which starts at Page 15 of 16.</p> <p>19 A. Okay.</p> <p>20 Q. And we're checking back in now with 21 the status, apparently, by the heading of the 22 face page of prior year observations, one of 23 which we discussed earlier today.</p> <p>24 If you turn to Page 16 of 16, we 25 have a set about mid -- a set of comments about</p>

41 (Pages 158 to 161)

Stephen Spargo

Page 162

1 midway down which says, "comments which are  
2 still applicable for fiscal year 1996."  
3 Are you with me?  
4 A. I am.  
5 Q. And there is a heading which  
6 follows, which reads, "accounts receivable  
7 observations"; am I right?  
8 A. That's correct.  
9 Q. And it says that, "as previously  
10 discussed, management recognizes the unique  
11 issues surrounding AHERF's accounts receivable  
12 management. Though, the following observations  
13 have not been addressed during 1996,  
14 appropriate follow-up procedures are currently  
15 in the development stage."  
16 Did I read that set of sentences  
17 right?  
18 A. You did. Yes.  
19 Q. And one of the bullet points  
20 beneath that introductory set of sentences is,  
21 "methodology for establishing bad debt reserves  
22 should be applied consistently."  
23 A. Correct.  
24 Q. When you read this upon receipt,  
25 what did that insert tell you?

Page 163

1 A. When I'm reading it right now, it  
2 tells me in that 1996 Coopers and management  
3 were of the opinion that they still had not yet  
4 established a bad debt reserve methodology.  
5 Q. When you read it then, you knew  
6 that to be accurate or inaccurate?  
7 A. Accurate.  
8 Q. And you still thought it needed to  
9 be done?  
10 A. I did.  
11 Q. You still thought, more  
12 importantly, that the validity of the  
13 underlying methodologies needed to be  
14 addressed, especially in the east?  
15 A. Correct.  
16 Q. Do you recall learning at some  
17 point in the -- while you were still with  
18 AHERF, Mr. Spargo, that there was another  
19 comparison effort made on the part of the  
20 Coopers & Lybrand auditors, this one between  
21 AGH and certain DVOG entities in fiscal year  
22 1996?  
23 A. I don't recall, no.  
24 Q. Do you recall why the consistency  
25 issue had not been addressed between the end of

Page 164

1 fiscal year 1995 and the end of fiscal year  
2 1996?  
3 A. Yeah. Because it would have  
4 yielded a reserve that would have been  
5 significantly larger than was on the books, the  
6 offset of which would have been a huge hit to  
7 the income statement.  
8 Q. And how was it that you believe  
9 that to be the rationale?  
10 A. That's the only answer.  
11 Q. In that you were -- let me see if I  
12 understand that. Seems to me you and others  
13 were telling senior management that this  
14 problem needed to be addressed; is that right?  
15 A. Correct.  
16 Q. And the fact that no instructions  
17 came down to have it so addressed leads you to  
18 the conclusion that you just gave us?  
19 A. Correct.  
20 Q. Do you have any doubt as you sit  
21 here today that Coopers & Lybrand, having  
22 audited the organization and the accounts  
23 receivable function in the organization both  
24 years, was fully aware of this difficulty?  
25 MR. RYAN: Objection.

Page 165

1 A. I have no doubt whatsoever.  
2 Q. And you base that statement on  
3 what?  
4 A. Conversations I had with them  
5 explicitly myself.  
6 Q. And those people that you refer to  
7 are?  
8 A. Coopers & Lybrand audit team.  
9 Q. From Mr. Buettner on down?  
10 A. On down.  
11 Q. I'm going to ask you to look at  
12 Exhibit 117 now, briefly, for me. It is  
13 another set of schedules. This one entitled  
14 Hahnemann University Hospital inpatient bad  
15 debt reserve calculation dated 6/30/96. Do you  
16 see that?  
17 A. I do.  
18 Q. This is another schedule that you  
19 recognize as having been run from AHERF's  
20 accounting system and one that would have  
21 either hit your desk or been made available to  
22 the auditors at audit time; is that fair to  
23 say?  
24 A. Wouldn't have hit my desk. It  
25 could have. Or been made available for the

42 (Pages 162 to 165)